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An Industry In Transformation:

A Master's Report on News Media Economics

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An Industry in Transformation:

A Master's Report on News Media Economics

by

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DEDICATION

I dedicate this Master's Report to the following: All of my UT Professors (especially George Sylvie and Mark Morrison, my two patient, knowledgeable advisors on this report), David Foster Wallace & Stephen Malkmus (if not for their acerbic, cautious wit I wouldn't have had the courage to write to a public audience, nor attempt long, convoluted run-on sentences like this one), and my parents who both shouldered Atlas-like loads of responsibility while raising me, but hopefully had a laugh or two in the process.

An Industry in Transformation:

A Master's Report on News Media Economics

by

Benjamin Nicholas Robertson, M.A.

The University of Texas at Austin, 2011

SUPERVISOR: George Sylvie

The focus of this report was the modern news media and how the industry has tried to adapt in a world where most news can be gathered with a few keystrokes for free. The report is segmented into four parts and investigates both how and what kind of news is consumed. The first part of the report focuses on the different types of news aggregators and how they affect the revenue of news sites. Pay-walls are also discussed, using *The New York Times'* recent decision to charge for access to their web site as a starting point. Evidence shows that besides one glaring exception (*The Wall Street Journal*, which is examined as an aside) the attempts to charge customers for content that was once free have largely been fruitless. The second part investigates mobile-based applications (also known as "apps") and their economic strengths and weaknesses; topics ranging from companies' initial successes to the ease of piracy are examined. The third part examines the meteoric, although at times numerically misleading, rise of Twitter and its potential use as a news gathering and consuming source as well as its

massive potential revenue streams. The fourth part examines what types of news are currently the most consumed, and dissects the profitability (and the attributes that lead to their popularity) of four genres: lifestyle, entertainment, business, and sports. The piece also looks at the potential of community-based, hyper-localized journalism, a venture that many claim profitable yet has failed to produce concrete results. Graphs are used as supplementary material for parts one and three. Taken as a whole, the report concludes that while there may be no sure-fire winner in the news media industry, the industry has finally shaken off the complacency that lead to hundreds of thousands of journalism jobs being lost and finally started to evolve.

Table Of Contents

LIST OF FIGURES

Page

Part One: News Aggregators, Pay Walls, and Their Effect on Revenue

While it is the currently the most popular way for Internet news consumers to catch their daily headlines, news aggregation is nothing new. Radio broadcasts have long provided their listeners with news by simply reading it off the daily periodical, and newspaper themselves use stories from services such as the Associated Press to help supplement their content. Online aggregators, such as The Drudge Report and The Huffington Post, have existed in various forms since the Internet's genesis. Not only do these sites attract exposure and garner sizable readerships; they have become financially lucrative, as seen by the Huffington Post's recent purchase by AOL for $315 million. Online revenue continues to rise as local online advertising reached $21.5 billion in 2010 and experts expect that figure to double by 2015, giving some hope to those who have used aggregators to build audiences but have yet to find a way to monetize their popularity. But many publishers, such as News Corp. CEO Rupert Murdoch, see these aggregators as parasites that feed (and in Huffington's case, lavishly) off the hard work of news generators, a group still trying to find a sustainable identity in the current news economic climate.

News aggregators typically fall under one of four types, according to a study by Kimberly Isbell of the Berkman Center for Internet And Society. . A "Feed aggregator" is a website containing material from a number of websites organized into "feeds"-- essentially a running log of stories -- based on source, topic, or story.

The reader freely sees the first sentence or so and is then prompted to click a link to the original source for the complete story. One example of a feed aggregator is Google News. “Specialty aggregators,” such as Techmeme, are just that- feed aggregators specializing in a topic or location. A “User-Curated aggregator,” like the popular Digg.com, operates by having site users share posts that are essentially endless in range (although posting illegal sites tend to be a good way to expose oneself to the authorities or get expelled from contributing any further). Sites such as Digg.com are organized so that not merely the most recent post gets shown; users decide on the prominence and visibility of links on the site by voting on (or in Digg’s case, “digging”) their favorite links. The final type is the “Blog aggregator,” such as Deadspin.com, which mostly takes third-party material (although original reporting is becoming more prominent in some of the more popular sites) and has someone make a small commentary, or blog, on the topic. While all four types of aggregators have drawn a variety of criticisms ranging from theft to pretentiousness, Feed Aggregators typically draw the most backlash from news generators.

Murdoch, whose News Corp. owns *Times Online*, *The Wall Street Journal*, *Fox News*, and a bevy of other news publications and networks, feels now is the time to start implementing pay walls in hopes of reclaiming some of the revenue lost to news aggregators. He hopes that implementing pay walls in his sites will help him reclaim some of the profit lost because of this current era of "free," where the user doesn't have to directly pay the company providing the information, journalism.

Many question how realistic it is to expect people to pay for something they have enjoyed at no cost for years.

"We live in a Web 2.0 world, where news breaks and quickly disseminates through Twitter and Facebook," says Rick Munarriz, an analyst for The Motley Fool, a financial website. "If one old-school print company is going to install tollbooths for digital access, folks will just forget the gated media sites and flock to folks willing to accept online ad revenue to deliver the news." Add that recent The Pew Internet and American Life Project studies found more than half of news consumers use an aggregator on a given day and that two-thirds of the top news sites were aggregators, and it seems original news content generators have an uphill battle in making profit, as aggregators can particularly damage sites with a pay wall.

"If once I hit my [pay] wall I can read 3 graphs of a story and get the gist of the rest on Huffington Post, why would I pay?" asks Paul Smalera, a blogger who has contributed to sites such as *The New York Times*. He says those first few paragraphs are what a majority of readers want anyway, unless the topic particularly interests them.

A recent study by research firm Outsell confirmed much of what Smalera says. Analyst Ken Doctor wrote in the group's *News Users' Report* that "A full 44 percent of visitors to Google News scan headlines without accessing newspapers' individual sites." The research also concluded that only 10 percent of news users are willing to pay for a print newspaper subscription to gain online access, and a daunting 75 percent said they would turn to other sources if the site they frequent required a paid subscription.

As consumers are hesitant to spend, that means costs must come down for businesses to stay afloat. This actually plays well to most aggregators as they are simply computer programs that run algorithms that scan news articles and post pieces the program deems valuable to the aggregator. As the overhead expenses of maintaining an aggregator—a server for web traffic, programmers that deal with usability issues, and personnel to deal with user complaints-- are minimal compared to a typical newsroom, most are profitable. Digg, for instance, keeps around fifty employees, yet has 8.5 million unique visitors monthly, according to Quantcast. It is the 138th most visited site on the Internet, according to web-site tracker Alexa.com, with the only news generating sources above it being the BBC Online, CNN, ESPN, *New York Times*, CNET.com, and The Weather Channel.

Journalist Robert Niles told the Future of News Media and Journalism Conference in Singapore in Spring 2010 that “[t]he expense of producing content is so low for many aggregators that they don’t need nearly as large a community of individuals to find great value in what they produce for them to be in the black.”

To combat such issues, Murdoch and The Associated Press – which shares some of News Corp.’s distaste for news aggregation sites -- are pursuing legal recourse. The AP, which has shown some recent benevolence toward news aggregation as it renewed its deal with Google News in June 2010, recently settled its case against All Headline News out-of-court, but several legal statutes could potentially be revisited in the coming months. While All Headline's case revolved around whether a person or company could copyright facts, the AP did find a 1919 Supreme Court Ruling that claimed "hot news"- information gathered at a cost or that is time sensitive-- could be considered property and would thus be open to copyright legislation. While this may be the legal protection and financial savior news generators have sought, some -- including Mike Mesnick, CEO of Techdirt, a blog dedicated to current media issues -- see it as a potentially damaging to Internet communication.

Another potential solution involves having aggregator sites pay their sources to link to their stories. Mesnick, however, thinks, "It's an incredibly short-sighted view that a newspaper takes to think that others must pay to promote you." Motley Fool analyst Munarriz agrees that advertising is the only realistic option for future online publications: "News aggregators deliver traffic to these sites. It is up to the media companies to monetize the traffic. If online advertising isn't enough, they are in the wrong business." Munarriz believes that you make sure a reader returns to the news source and not just the aggregator by making "sure the visitor bookmarks MY site. I would engage the reader at the end through interactive features and a lively discussion area so they would be compelled to register to post," acknowledging, "giving me their email contact info along the way."

While Smalera and Mesnick believe that the future of online journalism is ad-based revenue and nearly limitless consumer-to-consumer interactivity, some side with Murdoch. Jim Eggensperger, a professor at Iona College, asked about the ethics of news aggregators, Eggensperger said, "No, it [news aggregation] is not ethical. It is plagiarism." He added that news companies' will be adverse to producing new information because the Internet has made protecting content so difficult to control, and "If your product is based on material that you do not control, you are inherently at risk at all times." He says that the extra revenue for additional readership that may result from being posted on an aggregator site is negligible.

"PR/ Branding are marginal sources of revenue. I would not to try to use them [aggregator sites]. I would try to disaggregate them," says Eggensperger.

But Eggensperger understands the complexity of the current news media economic struggle, saying, "I don't think there is a simple answer to the new news model." According to the Newspaper Association of America, newspapers pulled in $25.8 billion in ad revenue last year, a 25-year low. As AP reports, this is roughly the same amount of revenue generated from advertisers 50 years ago, adjusted for inflation. This is a precipitous drop from newspapers' 2005 advertising high of $49.5 billion, mostly lost from classifieds, something "fading in value in a world of Craigslist and eBay Classifieds," according to Munarriz. This effect quickly compounds as not only does a newspaper lose money from the classified spaces they did not sell, but they also lose other advertising on those pages because people just don't view them as much anymore.

Some think news aggregators could potentially complement original source sites and not discourage users from viewing their content, such as Darian Shirazi, CEO of Fwix, a news aggregator that recently signed with the New York Times to provide them with local news. “Aggregation is going to be a way in which news companies supplement their original content,” Shirazi says. He further explained the need for aggregators, saying, “There aren’t enough editors in the world and there isn’t enough money to pay hundreds of editors to filter the growing online content universe.” Shirazi and Munarriz agree that the dawn of Craigslist and eBay has devastated local newspaper revenues far more substantially than Google News or other aggregators.

Considering Murdoch's stakes in the future model, he has gone on the offensive. Much as he pulled "Times Online" from British news aggregators, he threatens to do the same with his publications and Google News and let Microsoft's Bing engine be the exclusive search engine of his news content. Standing on his principles may cost him though: "I respect Rupert Murdoch, but I don't think he will win this one. If Fox bows out of Google News, it will mean less traffic to Fox and Murdoch's other News Corp. newspapers,” says analyst Rick Munarriz.

Murdoch has showed some signs of compromise, however, telling the National Press Club in April of last year, "We'd be very happy if they [Google News] just publish our headline and maybe a sentence or two- followed by a subscription offer to the *Journal*." Today a simple search in Google News of “Wall Street Journal” does give the reader the first few lines of a *WSJ* piece and a direct link to the story, but without the subscription offer.

Since Murdoch and Google have yet to agree to financial terms, Murdoch has his eyes on the iPad, a device he praised at the National Press Club meeting. Earlier this year the Australian guru released "The Daily," an iPad-only news application for Apple's multi-million selling tablet. The service promises to deliver hundreds of pages of material daily as well as feature state-of-the-art High Definition video and interactive 360-degree images. You can subscribe to the app for 99 cents a week of $39.99 for the year. Early reviews have ranged from flattering (Apple's Steve Jobs, not surprising as his iPad is the format of "The Daily") to a lukewarm reception and questions regarding viability from the UK's *The Guardian*.

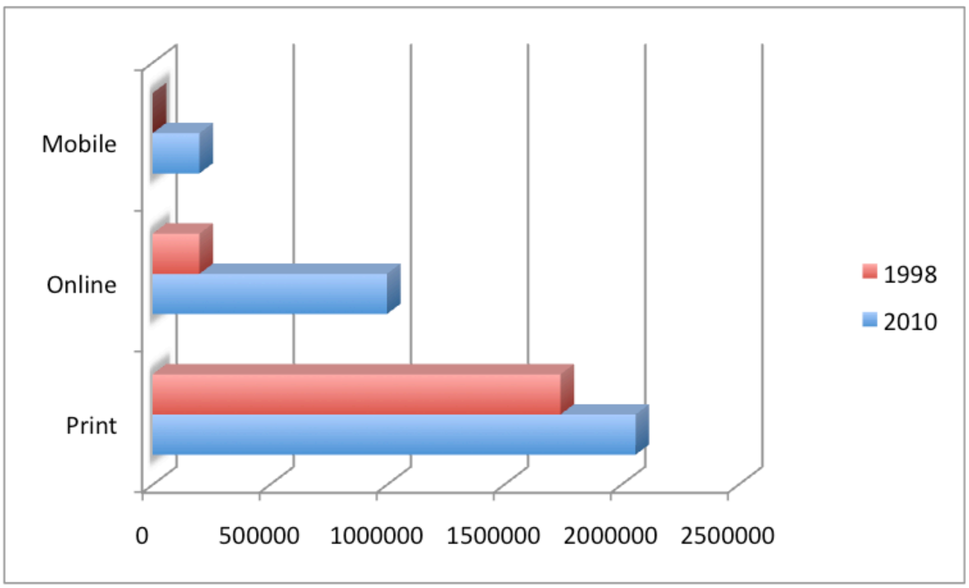
Tyler Cain, a market analyst, thinks Murdoch is taking a step in the right direction. "One benefit of being on a device like an iPad is the relatively seamless billing system, which frankly makes people forget how much they are spending – or that they are spending – because they simply have to press 'Buy' to get the app." Cain acknowledges that readership will be down due to the barrier to entry of a price wall, but still thinks it makes more sense than just hoping a wide audience will somehow generate cash. "While news aggregators can get you to read more, what's the point – from a business standpoint-- if you can't translate that into profit?" The Internet and particularly news aggregators have effectively exposed and magnified the fact that mere exposure does not generate revenue; how news generators respond will shape the structure and quality of journalism to come in the near future.

Aside: The Success of *The Wall Street Journal*

As *The New York Times* tries for the second time to successfully charge its online users for content, it may want to look at the digital distribution successes of a fellow New York paper: *The Wall Street Journal*. Along with its two million print subscribers, the *Journal* currently has over a million online subscribers; it has garnered this paying readership by aggressive pricing techniques, including student, business, and group rates. The average rate is currently $1.99/week for the first year when the price is bumped up—for those consumers who have proven they are willing to pay—to $2.99/week. The *Journal* implemented its pay wall in 1997, just a year after it introduced WSJ.com at a rate of $50/year. It had 200,000 subscribers by 1998 and celebrated its millionth customer in May 2007. While papers such as the *Times* of London saw its online readership plummet when it introduced a pay wall (ninety percent according to the *Guardian*), *The Wall Street Journal* continues to charge successfully to the tune of hundreds of millions of dollars annually. Along with the established name and sectionalized, aggressive pricing model—with products such as the new *CFO Journal*, which bundles WSJ.com and Factiva, a Dow Jones search engine, for $50/month--another big reason for its success, says Lee Berke, CEO of LHB Sports, a consulting firm, is the content itself.

"They make their information exclusive to them," says Berke. "And you have to pay in one fashion or another to get it. Even if the consumer isn't directly paying, they are being advertised to." The *Journal* also has the advantage of marketing towards a wealthy demographic (56 percent are in top management positions and the average annual salary is $257,100) that finds the up-to-date economic news the company produces essential reading. The *Journal* has also used its online presence to help its print circulation, offering deals to those who sign up for both. The *Journal* has also been thriving in its mobile marketing, as currently there are 200,000 subscribers who pay about $4/week to access the site on their tablet device, such as Apple's iPad or Amazon's Kindle.

The Wall Street Journal Readership by Distribution Type (Figure 1)



Part Two: The Economics and Viability of Apps

The New York Times began a new era March 28, as the country's third largest newspaper started charging readers for full access to its website and mobile applications. In a letter to readers, *Times* publisher Arthur Sulzberger explained: "The introduction of digital subscriptions is an investment in our future. It will allow us to develop new sources of revenue to strengthen our ability to continue our journalistic mission as well as undertake digital innovations that will enable us to provide you with high-quality journalism on whatever device you choose."

While Sulzberger focused on the rising cost of maintaining reputable journalism that many identify with the *Times* – and unquestionably it is a costly endeavor, as the *Times*' newsroom costs an estimated $200 million a year to run – he neglected to mention the obvious reason the paper will start charging: low revenues.

An exception proves the point. Comparing the second financial quarter of 2010 to 2009, the *Times* actually saw its revenue increase by $5.1 million, but that increase is relatively minimal-– less than a 1 percent increase and, adjusting for inflation in real terms, it could have actually been a decrease, according to Bloomberg. The nominal increases were mostly because of growing online advertising, something that garners the *Times* 26 percent of its total ad revenue. But this was the first time the newspaper saw such an increase since the third quarter of 2007 and it excited such executives as chief executive officer Janet Robinson.

“These numbers clearly demonstrate the positive impact of transitioning into an increasingly multi-platform company,” Robinson said in a conference call.

Although digital advertising, the backbone of many online publications’ business plans, has started to grow for the *Times*, the company has pressed on with plans to charge for full use of its website and mobile applications. Views differ as to the public’s willingness to pay for digital access to the world-renowned news source. While some, such as Alan Rusbridger of Britain’s *The Guardian* believe the charge-model doomed, others think the mix of new technological formats and respected journalism might be enough to sway people to buy.

Former journalist and current market analyst Caroline Parker is a proponent of the new system: “I think people will pay for *The New York Times*. It has become a fixture in the news industry and the readership identifies with the paper. Subscriptions to its new [digital] service may be slow at first, but I think if the reporting is up to snuff to what the *Times* typically does and it implements new technologies like HD video and 3D-imaging in its coverage, it will maintain its reputation as an irreplaceable news source.”

Paul Smalera, a blogger for True/ Slant and contributor to the *Times*, believes people will pay for certain delivery systems over others: “People might never pay for general news web content, but if there are new delivery methods, like Kindle or iPad, people have already shown themselves willing to pay for content they can otherwise get for free.”

Tablets, and in particular Apple's iPad, are being considered by many, ranging from News Corp.'s Rupert Murdoch to editors of community-based newsletters, as the potential gold-mine for which so many in journalism have hoped. With their sleek appearance, sharp-yet-sizeable displays and simple interfaces, tablets and in particular the apps -- software applications that run similarly to contained computer programs as opposed to simple web-pages but typically operate by information they gather from the web -- could potentially be the net that catches a journalism industry heretofore in an economic free-fall.

The devices sell at breakneck speed and are predicted to continue doing so, seen by technology website iSupply.com's prediction that 120 million iPads will sell by the end of 2012. That doesn't include competitive tablets, such as the recently released Motorola Xoom or Barnes and Noble's e-reader the Nook Color, which recently sold its four-millionth unit. And while the devices can be pricey (an average iPad 2 will cost you around $800 from Best Buy), the high cost of entry could actually be a positive sign, according to Parker.

"If someone has that much to drop on a tablet, it is safe to assume that they have disposable income to pay for the applications" market analyst Parker said.

The New York Times will not be the first news organization to start charging for its app. Conde West's *Wired* and *GQ* released apps for their magazines in May 2010, a month after Apple's iPad was unleashed upon a financially receptive population; *GQ* sold around 63,000 app downloads in its first five months and *Wired*'s app was immensely popular out of the gate, selling 24,000 in its first 24 hours of release, according to paidcontent.org, which tracks technology-based economic trends. Both charge $5 a month, comparable to their print counterparts. Murdoch recently released the first iPad-only newspaper *The Daily* for download in mid-February; sales numbers are not yet in.

But the business model has several potential hazards. First, Apple – through its "App Store" – is the only party from which an iPad owner can purchase an App. While the App Store being a one-stop-shop for those interested in buying the apps may help streamline the buying process, this could potentially complicate things such as segmented pricing -- charging different groups different rates—which effectively removes any flexibility in a company's approach to sales. Apple also takes 30 percent off the top of any App Store purchase – a hefty chunk considering all it's doing is providing a forum for transaction.

An even larger problem looms in the potentially lucrative app market: piracy. According to financial website 24/7 Wall St.'s Garrett McIntyre, more than $450 million in app downloads may be lost to piracy.

While it is neither condoned, endorsed, nor practiced by this author, one of the potential problems with the market for apps is the ease with which they can be pirated, thus damaging the developer's ability to garner revenue which makes developing the programs in the first place less attractive. As most apps are copyrighted material, such dubious actions are clearly illegal; developers may start to charge more for their apps to fund prosecutions against those who steal their programs as well as try to recover income lost because of the loss of sales.

Stealing apps is not a particularly difficult process, especially to those with basic programming knowledge. The first step is to “jailbreak” one’s iPhone or iPad – this action essentially lets the user circumvent any software barriers Apple has implemented and is as simple as downloading a program onto your computer. By doing this, the user now can download and use any sort of app he or she wants (including pirated material) and isn’t tied to software that Apple approves for its App Store. While Apple frowns on jailbreaking and will void your iPad warranty, free-use-of-purchased-hardware advocate groups such as the Electronic Frontier Foundation (EFF) successfully argued the practice’s legality, making it an exemption to the Digital Millinium Copyright Act (DMCA).

"By granting all of EFF's applications, the Copyright Office and Librarian of Congress have taken three important steps today to mitigate some of the harms caused by the DMCA," Jennifer Granick, EFF's civil liberties director, said in a press release. "We are thrilled to have helped free jailbreakers, unlockers and vidders from this law's overbroad reach."

After jailbreaking, the next step is to find pirated software. Hackers have created and sustained communities such as Cydia, an app “store” where you can easily find pirated versions of Apple-approved software. And such communities are not isolated instances; while estimates vary as to what percentage of iPad users jailbreak their tablet, studies by mobile applications developer Pinch Media report that 40 percent of those who do jailbreak go on to download pirated material.

While free apps (like the *Times* app was prior to March 28) are rarely pirated because it is pointless to steal something that is free already, the Pinch Media study also shows that the more expensive an application, the higher the demand for a pirated version. *The Times* may have serious issue here; after a first-month introductory price of 99 cents, the rate for full *Times* access on your iPad is $8.75 a week—equal to $455 annually. Comparatively speaking, getting the print version (which includes access to all digital archives) usually costs the customer $605 annually. At $455 annually, the *Times* app will easily be one of the most expensive in Apple's App Store and consequently one most targeted for pirating.

But Apple has taken measures to combat piracy. First, it started to let app developers include "in app purchases" in their software, permitting a user to buy things within an app directly from the developer. As the developer is the party selling these add-ons, the developer can put code in its programs that monitors users and assures they are authorized to use a certain feature. The problem, however, is that hackers can usually circumvent these monitors just as easily with creative coding.

Apple also tries to prevent pirated software by checking for evidence of jailbreaks when a user downloads new software for the iPad; on finding such activity, it can void the machine. Some developers, such as Guy Goldstein of Page Once, a personal financial software company, use another way to generate revenue without having to rely on app purchase fees: advertising.

"Our business model is based on purchasing and advertising. The more users, the better" Goldstein said.

This isn't the *Times* first attempt at charging for access to their digital archives. The paper attempted a similar pay wall type model with TimesSelect.com, a pay site received tepidly for the most part when first implemented in September 2005. Times Select, which charged primarily for opinion pieces and columns, generated the paper roughly $10 million annually by charging $7.95 a month or$49.95 a year, but was criticized by such *Times* staples as Thomas Friedman and Maureen Dowd for stunting their online readership.

The other, more evolutionally, killer of Times Select was the fact that the blogosphere had essentially made commentary free across the Internet, so the idea of people paying for opinion became less and less plausible. Times Select was stopped Sept. 19, 2007, and it seemed for a while that the *Times* had recommitted itself to a free content model supported by online advertising. Whether the *Times* will be able to successfully charge for an app this time around could have seismic implications for the entire journalism industry.

Part Three: Is Twitter the Real Deal?

The first three months of 2011 saw Middle Eastern uprisings relatively peaceful and quick (Egypt) as well as violent with no succinct end in sight (Libya). They saw dramatic actions taken by U.S. state governments in their quest to balance state budgets without crippling government programs while their federal government counterparts stood at the point of suspending government because of ideological differences. They saw Japan, one of America's greatest allies and a world leading economy, crippled by a natural disaster, the effects of which are just starting to be felt and are far from being fully realized.

Yet the most talked-about, ubiquitous story of the late winter and early spring in the United States had very little to do with a fragile economy or international strife. It involved the country's highest-paid television actor, deniably under-the-influence but unquestionably narcissistic, and his rants against his employers.

Charlie Sheen, an actor known equally for his (in the past, if the seemingly endless reports of drug test passing are to believed) love of narcotics and choice of women as for his starring roles in some of Oliver Stone's most lauded films, initially created seismic buzz with a few choice terms in candid interviews with celebrity reporters. But it took the creation of a profile on Twitter to quantify and cement his popularity and channel that rabid following to purchase tickets for a now-sold-out 19-city tour, a series with no ostensible point or performance, save the promise of

Sheen and his vague "torpedo of truth." While the performances themselves have received reactions ranging from fanatic applause to hoarse "boos" and walkouts, Sheen has continued to capture the attention of a country obsessed with the slow-motion car crash. While many may find the babbling about inter-stellar tigers tragic (or deserved) Sheen has maintained his buzz by using Twitter as an outlet to interact with fans, giving away tickets and making sure his persona doesn't fall down the drug-addled former Hollywood star abyss so many before him have.

"If it weren't for Twitter, there is no way he sells that many tickets," says Julia Ott, consultant for a variety of marketing and PR firms. Ott suggested that Twitter kept fans interested in Sheen's day-to-day musings long after terms such as "tiger blood" and "winning" garnered groans instead of giggles. While the initial interviews with Jeff Rosen and other celebrity journalists helped create a buzz for Sheen, it was his use of Twitter that maintained, and eventually monetized, it.

"While most companies don't have the advantage of such a interesting character," Ott says, "everybody can sign up and use Twitter effectively. It's a service that people can get a glimpse of you but not overwhelmed. It would certainly be a big part of any marketing plan I would try to introduce, especially if I was a media company whose life was based on views or clicks."

While the company only started in 2006, Twitter quickly became a technology giant with few peers in terms of exposure. A "micro-blogging" service, Twitter lets users express themselves however they see fit, 140 characters at a time. It also encourages users to follow fellow users, who can vary from a friend to the current leader in number of followers, pop enigma Lady Gaga. The current valuation for a service that essentially lets users digitally send each other Post-It notes: $7.7 billion, according to Reuters.

And that valuation is just one of several staggering numbers associated with the exponentially growing San Francisco-based company. The service has roughly 200 million current users. Over the course of February 2011 -- coincidentally when Sheen became the fastest user to garner a million followers – the site averaged 460,000 new users-*daily*. The amount of tweets has gone up 280 percent over the last 11 months, with roughly a billion of the miniature messages posted every week. While tweets can be tightly focused updates or messages, many of Sheen's were manic if not nonsensical, such as "We must bombard with Warlock Napalm, that traitor and loser whore #DUH-neese POOR-ards. a vile kidnapper and now dog thief. hate. SBW c" (a message left unedited, to show how the service can accommodate even the strangest of messengers).

As the company continues to grow with such rapidity, marketers who advertise on the site mirror that growth, increasing 100-fold over the last 12 months. According to Adam Bain, Twitter's director of revenue, 40 percent of the service's users follow at least one brand. Marketers are brainstorming just how to attract all the users to their product, something the company hopes to assist with in the future, with "follower dashboards" giving companies a deep set of analytics of their followers. Companies are also excited by the fact that blacks and Hispanics, according to Pew Research, use the service much proportionally more than whites, and hope Twitter may help attract those two growing markets.

Some companies, such as Amazon, pay celebrities to mention products in their tweets. For example, esteemed film reporter and entertainment writer Roger Ebert would suggest deals to his followers for items such as Alfred Hitchcock's boxed CD sets. Such set-ups have interested marketers, as well as news reporters and gatherers, as it potentially forms the basis of a content-for-cash model for which so many in the news media awaited. This model is especially attractive since roughly 75 percent of Twitter users are in between the age of 18 and 49, traditionally the most sought-after age demographic for advertisers. Such marketing has also proven far more successful than that on Facebook, as users are 16 percent more likely to purchase a product from a Twitter account as they are over a Facebook page, according to eMarketer, a website focused on digital advertising and marketing. Twitter also plans to start making up ground on Facebook in regard to advertising—while marketers spent $45 million advertising on Twitter last year, that number is expected to reach $250 million by 2012, according to *The New York Times*. Twitter intends on reaching that figure by continuing to add to its costumer base – which already includes corporate giants Ford and Microsoft – as well trying such things as "promoted tweets," which works similarly to Google's AdWords with the difference being that promoted tweets will top lists of searches on Twitter and AdWords are used to market products to users of Google searches.

"This could potentially work, but it needs to be a reputable source," says Caroline Parker, a financial analyst. "For someone who works in commentary, it's not a big deal to suggest a product. But if you are in hard news, especially if you are just starting out, I think you'd be called out often for having conflicts of interest if you were advertising products." Parker also acknowledged that while pretty much every other method of reporting also advertises, the compact message of Twitter's message could make it look like an endorsement rather than a mere commercial.

Because such messages require only a slight amount of editing, Twitter has become a source for breaking news, whether local as a high school baseball game or as international as an after-tremor's reach on the Richter scale.

Some, such as Mike Barnes, veteran sports reporter for KVUE television station in Austin, Texas, think that while Twitter can be a great lead to a story, more traditional, scrupulous journalistic techniques are needed to confirm stories before they are reported. "Just because it is on a site like Facebook or Twitter does not make it fact," Barnes said, adding that he couldn't fully report the news if he merely sat in front of the camera every night and read Twitter feeds.

"I wouldn't suggest doing that either," said Ott. "But sometimes opinions within themselves can be the facts of the story. When a player calls out (Chicago Bear quarterback) Jay Cutler after the NFC Championship game for being 'soft' or whatever it was, one player calling out another is the story."

Some, such as technology blog GeekOSystem, question how big of an audience a tweet will find, noting that many of the figures Twitter releases regarding user-ship don't account for many things. For instance, only 5 percent of users have more than 100 followers, and only 5 percent tweet 75 percent of the messages. About only half follow the accounts of more than two people; much like Facebook, if the user doesn't find the interactivity the product is identified with, he or she will stop using it quickly, seen by many simply letting their accounts go blank after a month.

Another problem involves imposter users. Public figures, ranging from incarcerated record producer Phil Spector to British politician Tony Benn, have had people pose as them and create accounts, typically saying demeaning things or generally damaging the reputation of the individual whose identity was stolen. St. Louis Cardinals' manager Tony La Russa sued Twitter for one such imposter account, citing trademark infringement, trademark dilution, cybersquatting, misappropriation of name and likeness, invasion of privacy, and intentional misrepresentation.

The company has since introduced "Verified Account" services for those in the public eye, and has firmed its position that anyone found posing as another will have their accounts suspended or terminated. While hugely effective in detracting imposters, the move still didn't stop Dan Sinker, a Columbia College professor, from recently imitating the newly elected mayor of Chicago, Rahm Emmanuel on a Twitter page, especially mimicking the former White House chief of staff's known propensity to use foul language. While Emmanuel actually took the gaffe in stride, it demonstrates that Twitter is by no means fool proof when it comes to verifying the identity of its users.

While Twitter has its fair share of kinks, the company's unprecedented -- yes, that includes Facebook – rise to popularity has many in the media excited in a new way to communicate and hopefully do business with the world. Whether it can maintain its integrity when marketers start trying to squeeze dollars out of it remains to be seen, but one recent Tweeter-addict is non-other than one-time presidential hopeful John McCain. Criticized during his 2008 for being too old, the Arizona senator admitted to *The New York Times* during his campaign that "I've never felt the need to e-mail." Some 1.7 million followers and more than 2,000 tweets later, the senator has certainly changed his tone toward the next step in communication. As he told a *Christian Science Monitor*-sponsored luncheon, "We get a much larger response from twittering something that we get from a regular press release." He continued, "[Twitter] is fundamentally restructuring the whole nature of information and how it is dispensed in America."

A Graphical Look at Twitter's Rise

Figure 2- Daily Tweets

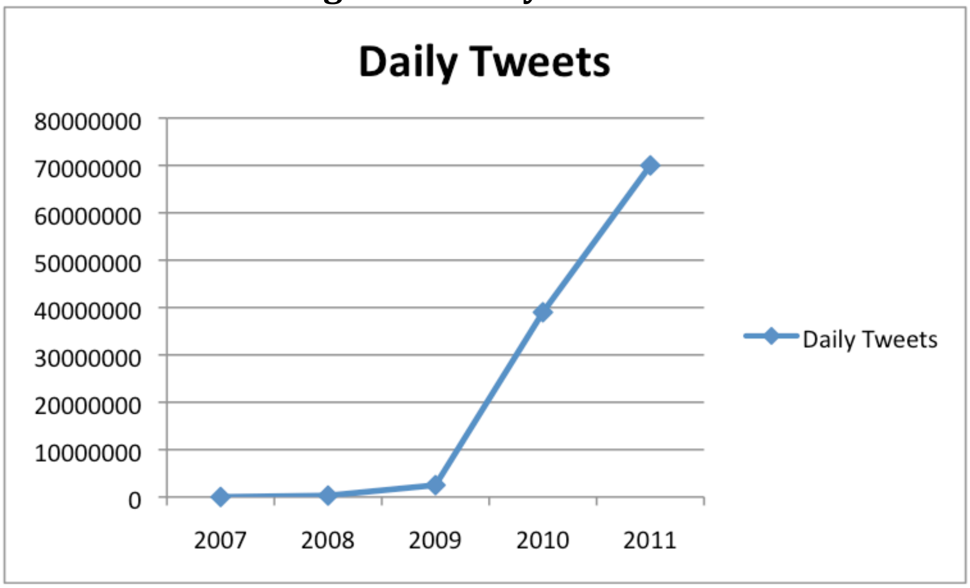


Figure 3- Employees

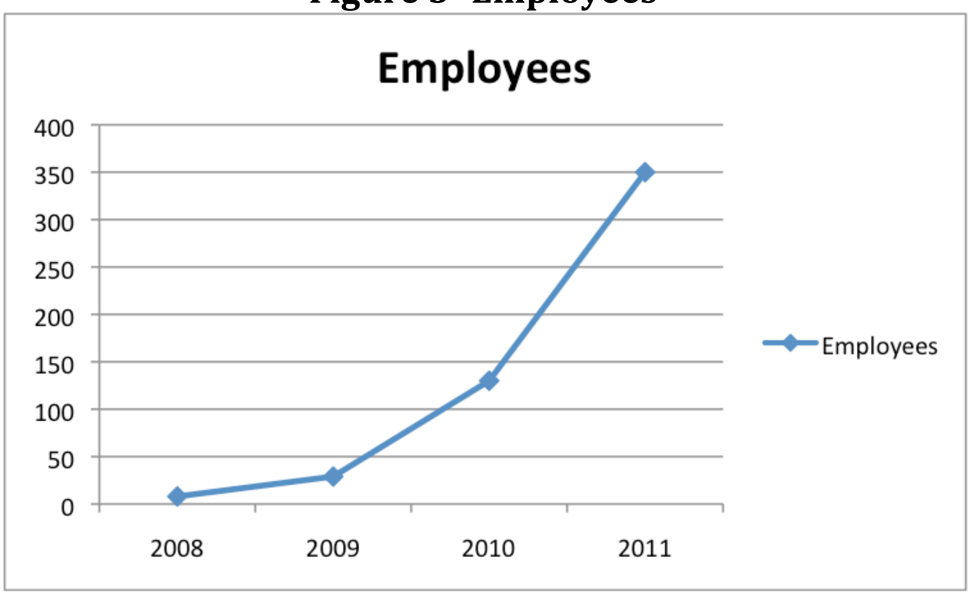


Figure 4- Registered Users

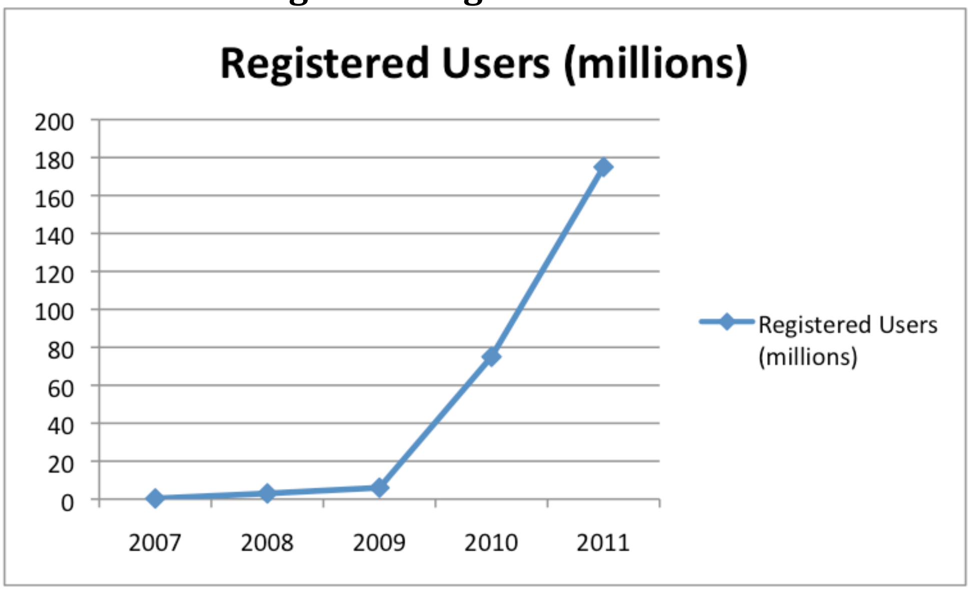
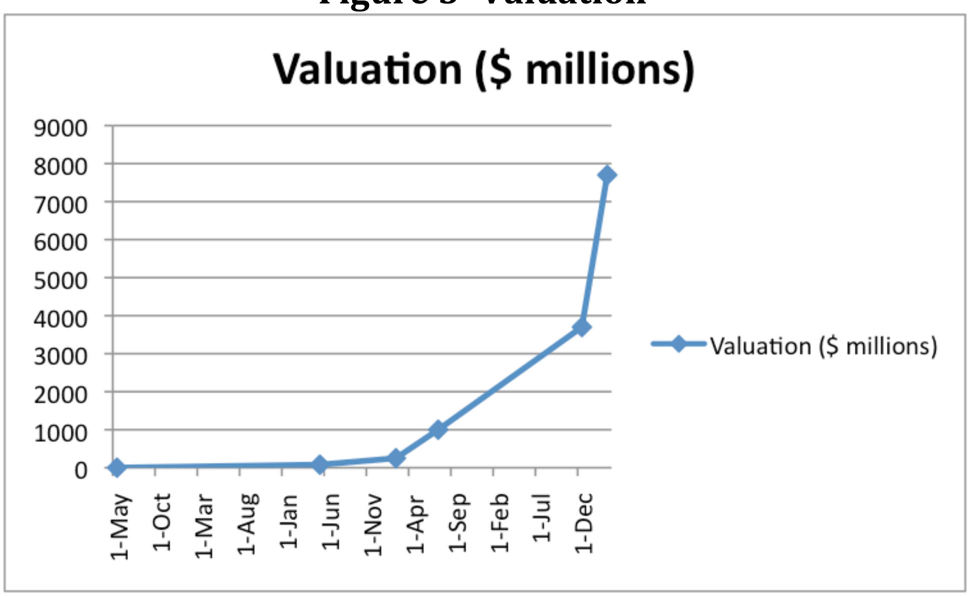


Figure 5- Valuation



Part Four: Journalism’s Viability and Profitable Sectors

The five years between 2005 and 2010 found journalism at a crossroads. Newspapers, once the backbone of the industry, saw their role diminished as readers flocked to the web for their information. Advertising revenue, consequently, plummeted from its $49.5 billion high in 2005 to $22.8 billion in 2010. While many papers managed to stay in the black throughout the five years, newspaper groups were not making the double-digit profit margins they had enjoyed for decades. For instance, Gannett, the publisher of *USA TODAY*, saw its profit margin at 30.6 percent in 2005; by 2010, that number had dropped to 8 percent. The company’s net income also nearly halved in the period from $1.24 billion to $772 Million, according to Gannett’s annually disclosed financial reports.

Because publically owned media conglomerates own a majority of major American newspapers, stockholders unhappy with slipping profit margins started scrutinizing paper executives. To appease stockholders and counteract the loss of revenue, managers eliminated 109,500 newspaper jobs and 19,400 magazine positions in the five year period, according to the AdAge Data Center. Magazine advertising revenue registered roughly $4.2 billion for the first quarter of 2009, a 20 percent drop from the same period a year before, according to the Publishers Information Bureau.

But journalism seems more in a state of transformation than a death-march. The growth in digital media companies provide a glimmer of hope – albeit a thin one that particularly pales in comparison to the deletion of print jobs, -- as Internet media companies, portals, and search engines grew by 18,300 employees over the same period. While it's highly doubtful that newspapers will earn the staggering amounts in advertising revenue they once did, advertising revenues in other mediums remain substantial. According to a report by accounting firm PricewaterhouseCoopers LLP, web ad revenue rose 15 percent from 2009 to $26 billion in 2010; it now generates the most money of any form of advertising. Cable television ($22.5 billion), broadcast TV ($17.6 billion), and radio ($15.3 billion) rank not far behind, and magazine ads (2011 first quarter ads up 6.1 percent over the same period in 2010) have also recently rebounded. While most of this revenue goes to entertainment-based programming, the fact that ABC News made $ 600 million, CBS News made $424 million, and NBC news made roughly $2 billion in revenue in 2010, demonstrates that not all of the cash is going to the newest sitcom or *Law and Order*; journalism clearly makes enough money to justify its high costs.

But more than the dawn of internet news lead to newspapers' shrinking circulations, much like more than the presence or the availability of the Internet lead to its role as a leading (and growing) advertising forum. One major reason newspapers declined lie in their flawed business model; they charged the consumer far less than the costs of production and hoped advertising could generate enough revenue to stay in business. Their healthy profits lead to complacency that in turn lead to a failure to embrace new technologies by evolving the business model and the product itself. The companies moved too slowly to embrace online distribution and continued to give away content instead of developing a stream of income from readers. But while adopting new technologies plays an essential role in success in any industry, that is simply not enough, according to Kalin Pühringer, a professor at the University of Zurich.

“The industry has to think more ‘outside the bun.’ Solely adding new technology is not the answer to decade-old problems,” Pühringer said in an interview.

In a news climate of shrinking staffs and growing competition, some organizations try to find profit in specialization of content. Currently, four sectors of journalism have proven lucrative: lifestyle, entertainment, business, and sports. These four sectors have audiences who have demonstrated they are willing to pay for the content using a variety of distribution models.

Lifestyle magazines normally specialize in distributing content about a variety of interests to specific demographics and audiences (teenage boys, house moms, etc.). The most popular target homemakers, as eight of the top 23 circulated U.S. magazines belong in this category, including magazines such as *Better Homes and Gardens* (2010 circulation: 7.6 million), *Good Housekeeping* (4.4 million) and *Southern Living* (2.8 million). These magazines attract advertisers as well as the matriarch typically doing the family’s shopping. As the next generation of housekeepers-- the generation who is just at home reading an article on an iPad as opening up a magazine-- start becoming interested in the content it will be essential for these magazines to find other ways to ensure a consistent, magazine-like revenue stream with their content or face the fate of many newspapers.

Walk by a checkout line in a local grocery store and you'll note that entertainment journalism, particularly celebrity-based, remains lucrative. Magazines such as *People*, *OK!*, and *Entertainment Weekly* stay popular by embracing the world's addiction to celebrity. *Entertainment Tonight* and *Inside Edition*, both entertainment and celebrity-news oriented, are two of the top-nine rated syndicated television shows with similar products *Access Hollywood* and *The Insider* not far behind. Some networks entirely dedicate themselves to celebrity news, such as Bravo and E! The Internet too has proven a perfect forum for celebrity gossip and news as blogs such as perezhilton.com, gawker.com, and TMZ.com are read in the millions daily. "While the content may be hard to defend, in its defense its readers are flocking to it," ex-journalist-turned-analyst Caroline Parker said.

The Wall Street Journal remains the highest circulated newspaper in the country, and its supplementary web site is one of the few for which people have proven willing to pay. While most business journalism may not have the staggering numbers of celebrity or sports in terms of overall viewership (for instance, according to web viewership-tracker Alexa, TMZ.com is the 106th most viewed site on the internet; Bloomberg is 172nd) business news remains lucrative because its audience is typically wealthy (thus appealing to advertisers) and willing to pay for information that directly affects their wallets.

In sports journalism, ESPN remains a cable behemoth as seen by the recent announcement of University of Texas at Austin-based The Longhorn Network, which will be ESPN's seventh on American cable.

"Television is the main driver for sports," says Lee Berke, CEO of LHB sports in New York and designer of the business plan for the YES Network, when interviewed. Berke said that cutting-edge media companies love getting involved with sports as they are a great way to showcase technology, whether it be getting video on your tablet or throwing on 3-d glasses to watch a football game (ESPN is one of the first networks to have a 24-hour 3d channel).

ESPN's web site is the 18th-most viewed in America, and the second-most viewed news site, behind CNN. The company has embraced new technologies with products such as iPad-apps, the aforementioned ESPN 3D channel, and ESPN3.com, a web-based product where the user chooses the game he or she wants to watch from all games broadcast by ESPN throughout the country.

While ESPN currently dominates sports journalism, past giants such as *Sports Illustrated* continue to find healthy readerships and a strong web following, and up-and-comers such as Deadspin.com all but guarantee ESPN will have to remain on its toes to keep its frontrunner status.

ESPN has gained its dominance by expanding its brand in a cost-effective way. One example is the hiring of many sub-contractor/ freelancers for regional action, a move, according to Berke, that can cut down on costs, as you don't have to pay for benefits, travel for color commentators, retirement packages, etc. While technology and shrewd hiring policies are two things the national sports media have embraced, Berke says it may in fact be the teams themselves who could put the biggest dent in sports media revenue, as they have seen the success of the team-owned, billion dollar YES Network (who broadcasts New York Yankee and New Jersey Net games) and hope to emulate it. While teams, such as the Pittsburgh Steelers, may have already sold their regulation game rights to the NFL, the teams themselves are trying to create regional networks with known broadcast companies to create supplementary programming that could take advantage of the broadcaster's expertise and the team's resources.

"The teams want control over how they are presented," says Berke, who recently orchestrated a deal in between Comcast and the San Francisco Giants that would give the defending World Series champions the ability to air supplementary, "shoulder programming," that a national market may not care for but will attract a substantial Northern California audience.

Much like narrowly focusing on a topic or industry helps those news subsets succeed, some foresee the future business model to be specialized geographically, also known as "hyper locally." One such source is patch.com, a collection of hyper-local sites that AOL is in the process of expanding. The page has members of significant experience leading it, as Warren Webster, a former director of magazine publishing for Gannett, serves as president and Jeff Jarvis, founder of *Entertainment Weekly* and author of *What Would Google Do?*, serves on its editorial board. While the site has a solid pedigree and a multi-billion-dollar conglomerate as its financial backer, many trying this route failed, including former *Washington Post* writer Mark Potts, who co-founded Backfence.com in 2005 (it closed two years later), and the *Washington Post*'s Loudoun Extra Project. There is potential for success, Mathew Ingram argues in a GigaOm.com column, but the entity must engage the local community. He believes those others did not succeed because of "a failure to find enough local advertising, lack of sufficient marketing, a dearth of compelling content." There remains the possibility that journalism simply cannot produce enough revenue to justify the costs of quality reporting. Some fear that if this is the case, the public will suffer, as it will not have apt information to make responsible decisions. "It would be different- especially in the fields of politics and general education," University of Zurich's Pühringer said.

"That could ultimately be what brings people back to paying for journalism," analyst Parker said. "Let's say there is some sort of corruption scandal that hit people in their wallets because they were under-informed. I'd bet people would be more likely to pay once they see the consequences of not having thorough, responsible reporting."

Mark Briggs feels journalism needs a more proactive solution. He says news entities should embrace their readers and their new ability to interact. Briggs uses *The Bakersfield Californian* as financially successful example because it focuses on the discourse between reporters and news consumers. Briggs suggests that writers who engage readers by participating in things such as comments sections, Twitter, and Facebook, will make the reader feel more connected to the writer and consequently more willing to follow his or her work.

While many analysts and executives try to devise ways to somehow salvage the old business model, those interviewed in this article agreed with one thing – in the future, successful journalism must adopt an entrepreneurial spirit. Some educators have started to embrace this idea, as the journalism departments at CUNY and Arizona State have started to teach business and marketing as part of their curriculum.

"Journalism's a tough biz to get into right now," said Paul Smalera, contributor for *The New York Times*, "but there's lots of opportunities if you're entrepreneurial and can view challenges as opportunities to try new things.".

References/ Research Methods

When I initially wrote the proposal for this thesis, my intended focus was to be on digital piracy. As I expanded my idea with my two supervisors, it became obvious that theme would be too broad to effectively attack; one that could, however, that had elements that could be feasibly addressed in 8,000 words, was the economics of the news media. While difficult to define as "piracy," much of the news media's current problems lay in the fact that they don't get paid by consumers of their product, a theft of sorts. After doing a fair amount of preliminary reading, I decided that the topic would best be addressed by breaking it into four parts: news aggregation, apps, twitter, and a look at current successful journalistic genres. While most of the people I talked to aren't mentioned in the piece (especially regarding piracy, as they would only talk to me anonymously), I tried to interview those that had some sort of legal, technical, economic, or industrial insight into the topic on which they were questioned. As journalists have never been known to struggle silently (hence, why they are writers to begin with), it didn't take long for massive amounts of web-pages, blogs, etc. to present themselves as potential references; looking at SEC filings (listed publically) helped find out a lot of financial information about the companies. Most of the sources that were quoted I had met throughout my course of study here at UT, while others I was referred to by both George Sylvie and others interviewed. Graphs were used as a way to give some visual flair for a report mostly focused on numbers.

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